

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER) CASE NO.
COMPANY FOR AN ADJUSTMENT OF RATES) 92-452

O R D E R

IT IS ORDERED that Kentucky-American Water Company shall file the original and 20 copies of the following information with the Commission no later than March 22, 1993, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If the information cannot be provided by the stated date, you should submit a motion for an extension of time stating the reason a delay is necessary and a date by which the information will be furnished. Such a motion will be considered by the Commission.

1. For the Base Period, provide detail describing major plant additions or retirements (including a description of major work orders, date placed in service or retired from plant, a copy of work order summaries, whether additions related to growth, reliability, upgrades, etc., and other key information or documents associated with the following (See Sch. B-2.3, page 1 of 2):

Acct. 321	Structures & Improvements
Acct. 325	Electric Pumping Equipment
Acct. 332	Water Treatment Equipment
Acct. 341	T&D Structures & Improv.
Acct. 343	T&D Mains
Acct. 345	Services
Acct. 346	Meters
Acct. 347	Meter Installations
Acct. 348	Hydrants
Acct. 390	Structures & Improvements
Acct. 392	Transportation Equipment

2. For the Forecast Period, provide detail describing major plant additions or retirements (including a description of major work orders, date placed in service or retired from plant, a copy of work order summaries, whether additions related to growth, reliability, upgrades, etc., and other key information or documents associated with all plant activity included on Sch. B-2.3, page 2 of 2).

3. Provide details of any activity in Accumulated Depreciation and Amortization caused by accruals or adjustments other than provisions for depreciation at currently approved rates (Base Period and Projected Period) (Sch. B-3).

4. What is the basis for a request to change the depreciation rate for Acct. 341 - T&D Structures & Improv. to 1.71% (B-3.2)? What is the current rate for this account? Provide any

documentation to support this change. Were any other accounts analyzed that did not result in a proposed change in depreciation rates? If so, provide the analysis of such accounts.

5. For each project included in Construction Work in Progress, provide a copy of the summary sheet from plant accounting records (B-4).

6. Provide (or prepare if necessary) a detail trial balance for calendar year 1992 that provides monthly activity and balances by account and subaccount, including transaction references to source documents.

7. Provide workpapers supporting the monthly accruals for depreciation expense contained on Schedule C-2.2a for the base period. The detail should be sufficient to verify monthly computations and any adjustments, including source references and explanations.

8. Provide workpapers supporting the monthly accruals for Account 407.1, Amortization of Property Losses, for the Base Period (Schedule C-2.2a, page 1 of 19). Provide an explanation of the origin of these costs.

9. Provide an analysis and explanation for administrative and general costs, and taxes capitalized for the base period and forecast period.

10. Provide support for the base period tax accrual (Acct. 408.1) (Schedule C-2.2a, page 1 of 19).

11. Provide workpapers supporting the monthly accruals for Account 408.13, Other General Taxes, for the Base Period (Schedule C-2.2a, page 1 of 19).

12. Provide workpapers supporting the monthly accruals for Account 408.14, Federal Unemployment Taxes, for the Base Period (Schedule C-2.2a, page 2 of 19).

13. Provide workpapers supporting the monthly accruals for Account 408.22, Environmental Taxes, for the Base Period (Schedule C-2.2a, page 2 of 19).

14. Provide workpapers supporting the monthly accruals for Account 409.15, Federal Income Taxes Current, for 1992 and the Base Period (Schedule C-2.2a, page 2 of 19).

15. Provide workpapers supporting the derivation of allocations and/or direct assignments of the 1991 American Water Works federal income tax expense to Kentucky-American.

16. Provide workpapers supporting the monthly accruals for Deferred Income Taxes (Accounts 410 and 411) (Federal and State) for the Base Period (Schedule C-2.2a, pages 2 through 4 of 19).

17. Provide workpapers supporting the monthly accruals for Account 420, AFUDC, for the Base Period (Schedule C-2.2a, page 5 of 19).

18. Why were the estimates of Miscellaneous Sales Billed Metered (Account 461.4) zero for the Base Period months November to April?

19. Provide workpapers supporting the monthly accruals for Account 643.31, Amortization Waste Disposal Expense, for the Base Period (Schedule C-2.2a, page 10 of 19).

20. Provide workpapers supporting the monthly accruals for Account 651.12, Amortization Deferred Expense - Water Structures, for the Base Period (Schedule C-2.2a, page 10 of 19).

21. Provide workpapers supporting the monthly accruals for labor charged to operations and other for the Base Period and Prior Period. At a minimum, the workpapers should reflect:

- a. Number of employees by classification (i.e., exempt craft, clerical, etc.).
- b. Overtime.
- c. Labor costs by classification.

22. Provide an explanation and workpapers supporting the increase in the monthly accruals for Account 672.12, Amortization Deferred Expense - Res. & Stand, for the Base Period (Schedule C-2.2a, page 13 of 19).

23. Provide an explanation and workpapers to support the increase in the January through April 1993 accruals over the prior year for Account 673.2, Other Maintenance of T&D Mains--Lab (Schedule C-2.2a, page 13 of 19).

24. Provide an explanation and workpapers to support the decrease in the January through April 1993 accruals over the prior year for Account 903.51, Billing and Accounting Computer (Schedule C-2.2a, page 15 of 19).

25. Provide an explanation and workpapers to support the increase in the August 1992 accrual over the prior year for Account 924, Property Insurance (Schedule C-2.2a, page 16 of 19).

26. Provide an explanation and workpapers supporting the increase in the monthly accruals for Account 925.11, Workmens Comp.--Premium Expense, for the Base Period (Schedule C-2.2a, page 16 of 19).

27. Provide an explanation and workpapers supporting the increase in the monthly accruals for Account 925.4, General Liability, for the Base Period (Schedule C-2.2a, page 17 of 19).

28. Provide an explanation and workpapers to support the increase in the January through April 1993 accruals over the prior year for Account 926.1, Accrued Oped Expense (Schedule C-2.2a, page 17 of 19).

29. Provide an explanation and workpapers supporting the increase in the monthly accruals for Account 925.11, Group Insurance Premium Expense, for the Base Period (Schedule C-2.2a, page 17 of 19).

30. Provide an explanation and workpapers supporting the increase in the monthly accruals for Account 930.23, Amortization Misc. General Expense, for the Base Period (Schedule C-2.2a, page 18 of 19).

31. Provide detailed workpapers to support forecast period accruals for the following accounts:

Depreciation Expense (Account 403)
Real & Personal Property Taxes (Account 408.1)
FICA (Account 408.16)
State & Federal Income Taxes (Account 409)

State & Federal Deferred Income Taxes (Accounts 410 & 411)
 AFUDC (Account 420)
 Interest on L-T Debt (Account 427)
 Amortization of Debt Discount & Exp. (Account 428)
 Dividends Declared Common Stock (Account 438)
 Water Sales (Accounts 461-466)
 Amort. of Deferred Exp. Lak Riv & Oth (Account 613.12)
 Power Purch for Pump Elec (Account 623.11)
 Power MN Pump Eqpt Mat Elec (Account 633.21)
 Wt Operation Superv & Eng (Account 640)
 General Chemicals (Account 641.1)
 General Wt Labor (Account 642.1)
 Amort Waste Disposal Exp (Account 643.31)
 OR MN Wt Supr & Eng (Account 650)
 OR MN Wt Struct & Imp Lab (Account 651.2)
 T&D Lines Labor (Account 662.2)
 PR MN T&D Supr & Eng (Account 670.01)
 Amort Def Exp Res & Stand (Account 672.12)
 OR MN T&D Mains Mat (Account 673.1)
 OR MN T&D Mains Lab (Account 673.2)
 PR MN T&D Mains Lab (Account 673.21)
 Meter Reading Labor (Account 902.2)
 Uncollectible Accounts (Account 904)
 Administrative & General Salaries (Account 920)
 Service Company Charges (Account 923.1)
 Workmens Comp Premium Exp (Account 925.11)
 Accrued Oped Expense (Account 926.1)
 Group Insurance Prem Exp (Account 926.11)
 ESOP Contributions Expense (Account 926.22)
 Amort Exp Rate Proceeding (Account 928.1)
 Amort Def Exp A&G Struc & Imp (Account 932.12)

32. Why were unbilled revenues eliminated in test year projections? Provide detail on inclusion in sales, if combined in sales projections.

33. Provide a detail of Professional Service Expenses for the Base Period and Forecasted Period (Schedule F-5). Information should include vendor and description of projects and type of services to be performed.

34. Provide a detail of the expenses shown on Schedule F-7, reflecting costs summarized by Account.

35. Provide workpapers required to support the sales forecast for the Base Period and the Projected Period, as summarized on Exhibit 38, Schedule I.

36. Describe the terms and conditions of the availability and cost of short-term debt (Exhibit 38, Schedule J-2).

37. Supply a copy of American Water Works and/or Kentucky-American's written postretirement benefit plan applicable to Kentucky employees.

38. Provide a copy of all studies performed by American Water Works or KA, or on behalf of KA, to determine the Company's existing liability for non-recorded FAS 106 postretirement benefit costs. Provide a breakdown of this liability on a consolidated (AWW) and Kentucky jurisdictional basis. Provide a list of all assumptions made in developing the studies included in this response.

39. Provide a schedule showing the cash basis vs. accrual basis costs associated with postretirement benefits for 1993 to 2013. The proposed amortization of KA's transition obligation should be broken out in this schedule.

40. As of the end of the 1992 (or the most recent period such information is known), what was the average remaining service period for active participants under the Plan? If quantified for KA participants, provide equivalent information.

41. Provide a summary of the ratemaking treatment and discussion in rate orders from other AWW jurisdictional operations

received to date. Provide any updates received throughout the period of these proceedings.

42. Discuss fully all actions AWW/KA have taken, plan to take or are reviewing to reduce or control postretirement benefit costs.

43. Explain how AWW/KA intend to allocate its "Transition Obligation" costs to its various subsidiaries and jurisdictions, specifically Kentucky.

44. Provide a copy of the results of any surveys conducted by AWW/KA, or participated in by AWW or KA, to determine what postretirement benefit cost saving efforts are being made by: 1) other regulated utilities and 2) non-regulated industries.

45. Provide a copy of all AWW or KA "Position papers" filed with other regulatory authorities (other commissions, AICPA, SEC, etc.) in connection with FAS 106.

46. Provide a copy of all letters or other correspondence with AWW or KA's independent auditors regarding FAS 106.

47. If not otherwise provided, provide a breakdown of the FAS 106 related costs included in this application including: service costs; interest cost; actual return on plan assets, if any; amortization of prior service costs; actuarial gain or loss; and amortization of the unrecognized obligation existing at the date of the initial application of FAS 106.

48. Discuss AWW/KA's funding policy relative to its postretirement benefit plan. Does AWW/KA plan to change its funding policy when FAS 106 is formally adopted in 1993? Provide

a copy of all internal discussion documents used to evaluate various funding plan options considered by AWW/KA.

49. Does AWW/KA have any current or planned "early retirement" or other staff level reduction programs in place or under consideration? Explain.

50. What changes in the level of postretirement benefits other than pensions does AWW/KA plan to pursue when negotiating a new collective bargaining agreement?

51. Provide a copy of AWW/KA's report filed with the SEC regarding FAS 106 in compliance with SEC Staff Accounting Bulletin No. 74 (Disclosure of the impact that recently issued accounting standards will have on the financial statements of the registrant when adopted in a future period).

52. Does AWW/KA's projection of postretirement benefit costs include only legally enforceable obligations or does this cost projection encompass a broader range of commitments including those obligations that cannot be legally enforced? Explain in detail.

53. Provide a schedule showing the specific investments that have been made with AWW or KA's and/or employee contribution to the Company's Postretirement Benefit Other Than Pension Plan.

54. Explain to what extent AWW/KA employees (active and retired) are required to make contributions to their Postretirement Benefits Other Than Pension Plan costs.

55. Provide a copy of any information handouts or other materials provided to AWW's Board of Directors regarding the projected cost of implementing FAS 106.

56. Provide a computation of SFAS 106 costs based upon a 1% reduction in the assumed Healthcare trend factor over years 1-12 (assuming no other changes in other factors). In a separate computation, assuming the 1% change in the Healthcare trend factor, provide any changes, if any, that AWW or its actuaries might suggest to other factors, and their effects on SFAS 106 costs.

57. Provide a copy of any studies performed by AWW/KA or on its behalf that evaluates the sensitivity of FAS 106 cost assumptions.

58. Provide AWW and KA 10K reports to the SEC for the years 1987 through 1992.

59. Provide a copy of any 8-K or 10-Q reports filed by American Water Works or Kentucky-American with the SEC during and for the 1992 period.

60. Provide a listing of all financial, management, and operating reports prepared by or for KA on a monthly basis. Describe each report and indicate the uses of the report. Include reports dealing with payroll, cash flow, sales, customers, construction, productivity, operating costs, etc.

61. Describe and explain all forms of KA or AWW (to the extent included in allocated costs) executive and/or management compensation in effect during the base period. Identify any changes expected to occur in the projected period. Describe the accounting for each type of executive and/or management compensation and provide a copy of any related agreements or compensation plans. Also provide a copy of any documents that

describe how AWW and/or KA account for executive or management compensation.

62. Identify and describe the various employee benefits related to KA's water operations. Also provide a copy of any summaries of employee benefits and describe and explain any changes in employee benefits that have occurred since January 1, 1991.

63. Provide a copy of the most recent actuarial reports for KA's pension plan related to Kentucky operations.

64. Describe and explain the various types of business insurance KA maintains related to Kentucky water operations, including general corporate insurance. Provide a schedule of coverages of business insurance maintained during the period 1990 to date and indicate the annual premiums for each type of insurance. Provide a copy of any documents that summarize the types of insurance that KA maintains related to its Kentucky water operations.

65. Describe and explain any operating reserve accruals related to Kentucky water operations, such as extraordinary maintenance reserves, injuries and damages reserves, or reserves for uncollectible accounts. Describe how KA determines the accrual to each reserve. Indicate the amount of the accrual for each reserve included in Kentucky operating costs. Explain how KA accounts for each reserve and provide a copy of any documents that describe the purpose of the reserve or accounting for the reserve.

66. Provide a copy of any analysis of the impact of weather on Kentucky water sales for 1991, 1992, and the base period.

67. Provide a description of any changes in accounting methods or procedures which affect Kentucky revenue requirements that have occurred since the last Kentucky rate case.

68. Provide a copy of any KA accounting procedures manuals effective at any time during the period January 1, 1992 to date. Include the general accounting manual, property accounting manual, payroll accounting manual, etc.

69. If not otherwise provided, identify all changes to KA employee medical benefits from January 1, 1992 to the present. Identify the date of the change and the anticipated cost increases or decreases associated with the change.

70. For each project included in CWIP in the base period and the projected period, classify its general function as to: nonrevenue producing (reliability, compliance with regulations, etc.) and revenue producing (customer growth, system upgrades to meet current or future demands, etc.).

71. Provide a comparison of actual versus budgeted construction expenditures for the period 1988-1992. The analysis should reflect detail by project for any items representing 5% or more of the total in any given year. Explain variances, where readily known.

72. According to Mr. Oxley on page 2 of his testimony, KAWC used actual billed customer charges and metered water usage for the twelve months ended June 30, 1992 as the basis for forecasting operating revenues at present rates for the twelve-month period ending August 31, 1994.

a. Why was more current actual customer and usage data not used in the forecasting process?

b. Was customer charge and water usage data for the twelve-month period ended June 30, 1992 used to project revenues for all customer classes in this case?

c. The base period for this case has been identified as the twelve months ended April 30, 1993. For this twelve month period, is it true that actual sales data was used for only May 1992 and June 1992 and projected for the remaining ten months? Does the use of only two months of actual data comply with the Commission's proposed regulation 807 KAR 5:001, Section 10?

d. Regarding Exhibit 38, Schedule C-2.2(a), describe how the billed metered sales revenues shown for Account Nos. 4611, 4612, 4613, 462, 463, 4642, and 466 for the base period months of July 1992 to April 1993 were determined.

73. Explain fully how KAWC determined that water sales for the Other Public Authority and Other Water Utility classes exceeded a normalized level and that a reduction of 103,750 CCF for these classes for the forecasted test period was appropriate as described on page 3 of Mr. Oxley's testimony.

74. Describe fully the methodology used by KAWC to determine that historical sales to all customer classes other than the Other Public Authority and Other Water Utility classes are "representative of the same water usage those customers will have in the future" and are not to be adjusted for use in the

forecasting process as described on page 3 of Mr. Oxley's testimony.

75. Describe fully the methodology used by KAWC to project new meter installations as discussed on page 3 of Mr. Oxley's testimony. In this description, explain how "past history of actual installations" was determined and how KAWC's "best estimate of future development" was made. How were these then used in the forecasting process. Furthermore, describe how the documents included in Section 2 of the Workpapers were used in this forecasting process.

76. Describe fully how expected customer growth during 1993 was determined as discussed on page 4 of Mr. Oxley's testimony.

77. Explain why the expected customer growth in 1994 is assumed to be identical to that experienced in 1993 as stated on page 4 of Mr. Oxley's testimony.

78. Explain fully how an increase of 3,335 residential and 364 commercial customers for the twenty-five month period from June 1992 to August 1994 as shown on page 4 of Mr. Oxley's testimony was determined.

79. Explain why KAWC assumes that water usage per customer during the forecasted period will to be identical to that experienced during the twelve-month period ended June 1992.

80. Explain fully how additional water usage due to customer growth of 351,463 CCF for the residential class and 179,757 CCF for the commercial class as shown on page 4 of Mr. Oxley's testimony was determined.

81. Using water sales, customer, and usage per customer forecasts from previous years and actual historical data, describe and illustrate how accurately KAWC's forecasting methodology projects future sales and customer levels.

82. Provide actual water sales (in 100 cubic feet) and number of customers on a 12-month average and end of period basis by customer class on an annual basis for the last ten calendar years through 1992.

83. Provide actual water sales (in 100 cubic feet) and number of customers by customer class on a monthly basis for the last two calendar years through 1992. Provide the same monthly information for the base period (twelve months ended April 30, 1993) and for the forecasted test period (twelve months ended August 31, 1994). Explain how projected sales and customer levels during the base and forecasted periods are determined.

84. Explain the difference between the base period class revenues shown in Exhibit 38, Schedule I-2 and base period class revenues at present rates shown in Exhibit 38, Schedule M-3, Page 1 of 2.

85. On page 2-1 of the July 9, 1992 Least Cost-Comprehensive Planning Study ("LC-CPS"), KAWC states, "Past trends are analyzed to determine existence of data relationships which can be used along with predicted data causal variables to provide more accurate demand projections".

a. Explain why KAWC has not used a forecast model such as the one described in its LC-CPS in projecting sales and customer levels in this case.

b. Has KAWC ever considered developing an econometric forecasting model for use in its sales and customer forecasts? Explain why such a model has not been developed.

c. Is KAWC aware of any other water utility that is using an econometric forecasting model for projecting sales and customer levels? Explain.

d. Describe and discuss exogenous variables that could be used in an econometric forecasting model to predict water sales and customer levels.

86. On page 2-1 of the LC-CPS, KAWC states, "Sensitivity analyses can now be conducted on any modeled variable to determine what the demand variation will be for each change in the selected variables". Has KAWC conducted sensitivity analyses as part of its sales and customer forecasts in this case? Explain.

87. In the 1992 LC-CPS and in response to Item 13 of the Commission's December 8, 1992 Order in this case, KAWC discusses existing and planned water resource management and conservation programs.

a. Describe whether KAWC has determined the impact of such water management and conservation programs on future water sales. Explain.

b. Describe fully the extent to which the impact of new and existing conservation programs are being accounted for in the sales projections for the forecasted test period in this case.

c. Describe fully the extent to which the impact of new and existing conservation programs are being accounted for in KAWC's long-range sales projections, including but not limited to its 5-year planning process.

d. Describe KAWC's plans to implement the moderate conservation programs listed in its response to Item 13 of the Commission's December 8, 1992 Order.

88. On page 2-22 of the 1992 LC-CPS, KAWC discussed the implementation of a conservation based rate structure.

a. Explain whether an inverted rate structure could be implemented without a change in customer billing cycles.

b. Discuss KAWC's plans and progress toward implementing a water rate structure which would encourage conservation. Your response should discuss and differentiate between: inverted block rates, seasonal rates, and surcharge rates.

c. Discuss KAWC's plans to implement the use of monthly billing cycles.

d. Has KAWC evaluated further the cost of implementing monthly billing cycles as stated in its 1992 LC-CPS? Explain.

e. Has KAWC studied the feasibility of implementing an automatic meter reading program as stated in its 1992 LC-CPS? Explain.

f. Describe fully the meter reading and customer billing schedules and methods currently used by KAWC. For instance, are the meters of all customers who are billed quarterly read at the same time each quarter or are meters read and customers billed on different three month cycles? How is this method different for customers billed on a monthly basis? Explain.

g. Explain whether peak load rates such as seasonal or surcharge rates could be implemented without changing to monthly billing cycles for all customers.

89. Has KAWC considered implementing a flat rate structure? Explain.

90. Would a flat rate structure encourage customers to conserve water? Provide any reports, studies, or papers that support your response.

91. In response to Item 11 of the Commission's December 8, 1992 Order, KAWC provided a copy of the Operating Budget Procedure for the American Water Works System. However, Appendix A, Procedures for Budgeting Billed Revenues by Use of Billing Analysis, was not filed. Provide a copy of this appendix.

92. Item 15 of the Commission's December 8, 1992 Order, asked KAWC to explain how weather data is integrated into its sales forecast model. KAWC's explanation is not clear. Explain fully how the effects of weather variables, such as precipitation levels, drought, or temperature, among others, are accounted for and incorporated into KAWC's sales forecast.

93. Explain why KAWC has proposed the revenue increase be spread on an equal percentage across the board to all customer classes, as stated on page 17 of Mr. Ferrell's testimony.

94. On pages 2-1.1 through 2-1.5 of the Workpapers, explain how the information shown in columns B (Meter Billings), C (Growth), and D (Final Bills) are determined.

95. Explain how the schedule of customers shown on page 2-2 of the Workpapers was developed.

96. Explain how the documents in Section 2 of the Workpapers were used to determine the billed revenue adjustments shown in Exhibit 38, Schedule D-2.1 and the annualized class and schedule revenue summaries shown in Exhibit 38, Schedule M-3.1.

97. In Mr. Eden's prepared testimony, Answer No. 14, he states that the least costly option for meeting the source of supply deficit is the construction of two new dams. If the detailed analysis for this option was included in the 1992 LC-CPS, please indicate where. If not, provide all details of the cost to construct the two dams plus the additional water treatment and pipeline capacity.

98. Refer to Exhibit 8 of Kentucky-American's filing requirements:

a. Provide an explanation of the property held for future use of \$99,957.

b. What is included in the category of "Other, Net" in the amount of \$73,424?

99. Refer to Exhibit 10 of Kentucky-American's filing requirements:

a. On page 1 of 4, there is a computer aided drafting system, Budget Item No. 92-06, that will cost \$216,000 upon completion in 1995. Provide a brief explanation of the drafting system and how it will benefit Kentucky-American.

b. Will the computer drafting system result in a reduction in the drafting services provided to Kentucky-American by the American Waterworks Service Company ("Service Company")?

c. Kentucky-American has spent \$1,013,574 on the design and renovation of its office complex and it will spend an additional \$681,426 between 1993 and 1995. Provide detailed descriptions of the office renovation and how it will benefit Kentucky-American.

100. Provide an analysis of the construction projects completed in 1990, 1991, and 1992. This analysis should include the budgeted completion date and cost, the actual completion date and cost, and the reasons for any differences between the budget and actual results.

101. Provide comparisons of the 1989 through 1992 annual budgets to the actual results. Include explanations of any variances that occurred.

102. On page 23 of 487, of Exhibit 30 of Kentucky-American's filing requirements, is the September 1992 construction variance from original budget report that shows that Kentucky-American's

budget exceeded its actual construction by \$5,802,860. Provide a detailed analysis explaining the reasons for this large variance.

103. Refer to page 3 of 88, of Exhibit 36 of Kentucky-American's filing requirements:

a. In the forecasted period, the regional office has not allocated engineering costs to Kentucky-American, but the general office allocated \$2,944. List the engineering services Kentucky-American received from the general office and explain Kentucky-American's future relationship with the regional office's engineering department.

b. For the period of 1989 through the forecasted period the regional office secretarial allocation increased by approximately 157 percent. Provide a detailed analysis explaining the increase in this allocation.

c. For the period of 1989 through the forecasted period, the regional office accounting allocation increased by approximately 77 percent. Provide a detailed analysis explaining the increase in this allocation.

d. For the period of 1989 through the forecasted period, the allocation of data processing costs to Kentucky-American increased by approximately 212 percent. Provide a detailed analysis explaining the increase in this allocation.

104. Per Exhibit No. 1 of Robert Edens Direct Testimony, Kentucky-American's year-end return on average equity for 1991 was 13.07 percent, only the second time since 1982 that the authorized

rate of return has been exceeded. What occurred in 1991 to cause this to happen?

105. On page 11 of his Direct Testimony, Cecil Sasher, Vice President and Treasurer of Kentucky-American, states that many of the services now offered by the Service Company to Kentucky-American were not described in the 1971 Service Company Agreement ("1971 Agreement") or were grouped with other services. Provide a detailed listing of the services that are referred to by Mr. Sasher.

106. On page 11 of his Direct Testimony, Mr. Sasher states that Kentucky-American, "for years, received the benefit of the old allocation which, in my opinion, often caused costs that should properly have been borne by the Kentucky customers to passed to other operating subsidiaries within the American System." For each allocation category (i.e., accounting, administrative, etc.) show and quantify any benefit Kentucky-American received under the 1971 Agreement at the expense of the other operating subsidiaries.

107. a. Provide a detailed list of the data processing services provided to Kentucky-American by the Service Company.

b. Provide a detailed list of the data processing services provided to other operating subsidiaries in the Southern Region.

c. Provide a detailed list of the data processing functions Kentucky-American performs at Lexington.

108. On page 12 of his Direct Testimony, Mr. Sasher states that the cost and staffing for programming, cost and size of the

computer, heating, ventilation, air conditioning, and office space for data processing is incurred largely without regard to whether bills are rendered monthly or quarterly. If the number of bills printed annually does not affect any of the data processing costs as stated by Mr. Sasher, what does drive the investment and cost to operate the data processing department?

109. On page 13 of his Direct Testimony, Mr. Sasher made the following comment. "First, and foremost, the purpose of our operating subsidiaries is to provide water service to customers, and, in my opinion, a customer based allocation is a logical way to allocate these costs."

a. Does this statement imply that a direct relationship exists between every service provided by the Service Company and Kentucky-American's customers?

b. Would this statement hold true for any manufacturing company that the purpose of the company is to provide service/product to customers?

110. On page 13 of his Direct Testimony, Mr. Sasher adds that the 1971 Agreement used complex and cumbersome allocators that resulted in spurious accuracy. Provide examples of the spurious accuracy of the 1971 Agreement.

111. On page 13 of his Direct Testimony, Mr. Sasher concludes that the use of one allocator is simpler and easier to use. Is simplicity a major reason for the use of one allocator?

112. Did the Service Company perform any studies when the 1989 Service Company Agreements ("1989 Agreement") were developed to

show that the number of customers was the most appropriate allocator to use for each service category?

113. Refer to Exhibit 38 Schedule C-2.2(a):

a. Provide an explanation for the increases that occurred in these accounts between the base period and prior period:

(1) Account 40814 - Federal Unemploymnt Txs increased by 206.37 percent.

(2) Account 63321 - Pr Mn Pump Eqpt Mat Elec increased by 24.98 percent.

(3) Account 640 - Wt Operation Superv & Eng increased 44.92 percent.

(4) Account 6421 - General Wt Labor increased by 53.22 percent.

(5) Account 6622 - T&D Lines Labor increased by 296.63 percent.

b. Explain why Accounts 40911 - SIT Adjust Prior Years and 40916 - FIT-Adjust Prior Years have credit balances at the end of the base period.

c. Explain the decreases that occurred in Account 4611 - Res Sales Billed Metered from the prior period to the base period in August, September, and October.

114. Refer to Exhibit 38 Schedule C-2.2(b):

a. Explain the decreases that occurred in Account 4611 - Res Sales Billed Metered from the base period to the forecasted period in December, March, and June.

b. Explain why the only active months in Account 63321 - Pr Mn Eqpt Mat Elec are March, April, May, and June.

c. Provide an explanation for the increases that occurred in these accounts between the base period and forecasted period:

(1) Account 6622 - T&D Lines Labor increased by 167.63 percent.

(2) Account 67212 - Amort Def Exp Res & Stand increased by 149.65 percent.

(3) Account 6732 - Or Mn T&D Mains Lab increased 96.79 percent.

(4) Account 9022 - Meter Reading Labor increased by 102.91 percent.

115. There are instances when construction projects are not started when anticipated, completed on time, or there are cost over- or under-runs. Has Kentucky-American factored into its forecasted plant additions any of the aforementioned occurrences?

116. Refer to workpaper W/P-1-1.10, budget item 93-06 the System 36 replacement:

a. Did Kentucky-American explore the options of leasing a Computer rather than purchasing a new computer?

b. What will Kentucky-American do with its old System 36 computer?

c. What function will the new computer perform that the old System 36 could not do?

117. Refer to workpaper W/P-1-5.1, Construction Work In Progress ("CWIP"):

a. Kentucky-American has included the cost to develop an additional source of supply of \$1,102,115 in its forecasted CWIP of which \$822,500 is available for AFUDC:

(1) Are all of the costs included in forecasted CWIP considered design and development costs?

(2) The Uniform System of Accounts for Class A and B Water Companies ("USOA") requires that all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation be charged to Account 183 - Preliminary Survey and Investigation Charges. Explain why Kentucky-American has included these costs in CWIP rather than Account 183 as required by the UsOA?

(3) In a prior rate case¹ the Commission determined that the design costs at the expansion of the Richmond Road Station provided no benefit to the ratepayers since there was uncertainty that the construction would take place and it was removed from rate base. Why should the cost to develop the source of supply be given a different treatment?

b. Kentucky-American has included Jacks Creek Pipeline costs \$469,791 in its forecasted CWIP of which \$447,924 is available for AFUDC. On pages 12 and 13 of his direct testimony,

¹ Case No 90-321, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on December 27, 1990, Order dated May 30, 1991.

Mr. Edens made the following statement concerning the Jacks Creek Pipeline: "The certificate of construction granted to us by the Public Service Commission has been appealed to the Franklin Circuit Court by Spears Water Company. We are unwilling to assume any of the risks involved in beginning construction until the matter has been concluded in the court system. We cannot accurately predict the date when the matter will be finally decided." Given the uncertainty of the construction of the Jacks Creek Pipeline why should this cost remain in CWIP accumulating AFUDC?

c. Provide an explanation of the CPS update not allocated to specific jobs in the amount of \$36,838.

d. Kentucky-American has included the cost to evaluate source of supply options of \$319,623 in its forecasted CWIP. Given that the source of supply is still uncertain, why should these preliminary costs be included in rate base when they provide no foreseeable benefit to the ratepayer?

e. Provide a description of Budget Item 92-08 and 92-09 the Disinfection Studies at Kentucky River Station and Richmond Road Station.

118. On page 24 of his direct testimony, Edward Grubb, Assistant Director - Rates and Revenues of the Service Company, states that the labor expense is based on each employee working 2,088 hours. Given the normal 40 hour work week, why was 2,088 hours used rather than 2,080?

119. If an employee has no sick-time or vacation, does Kentucky-American allow that employee to take-off with-out pay for good reason?

120. Refer to the workpaper series W/P-3-1, Forecasted Payroll:

a. Give a detailed description and calculations of how scheduled and unscheduled overtime was developed?

b. Will the plant replacements have an affect on the overtime and did kentucky-American attempt to factor this into its overtime calculations?

c. On page 24 of his direct testimony, Mr. Grubb references a 4 percent increase for non-union employees. However, W/P-3-1.21 and W/P-3-1.22 shows that there is not an across the board 4 percent increase, but rather increases that range from 3.892 percent to 4.118 percent. Provide an explanation as to why the wage increase are so varied.

d. How did Kentucky-American determine that \$715,363 of its forecasted payroll should be capitalized?

121. Have any studies been performed comparing Kentucky-American wages to those of comparable utilities or the wages paid in the Lexington metropolitan area? Provide copies of any studies performed.

122. Does Kentucky-American currently pay its employees any incentive pay or bonuses?

123. Provide an explanation as to why the non-union employees were not given the same percentage pay raises as the "inside union group."

124. Refer to page 25 of Mr. Grubb's direct testimony:

a. Explain why a 6 year average of actual kwh to million gallons was used in the calculation of the forecasted fuel and power expense.

b. Cite specific instances in the calculation of forecasted fuel and power where operational judgement was used to adjust the average.

c. Provide the comparisons of the annual budgeted amounts and actual results for fuel and power for the period of 1987 through 1992. Include in the comparison explanations for the variances between actual and budgeted amounts.

125. In the forecasted period there are several plant replacements and additions that would affect fuel and power expense. Has Kentucky-American's factored into its adjustment the changes in plant that will occur?

126. Given that Kentucky-American's system has constantly expanded, is historical averages a good indicator of future electric requirements?

127. Refer to the workpaper series W/P-3-3, Forecasted Chemicals:

a. Based on a brief review of the workpapers it appears that the averages of actual chemical usage to million gallons were not used in the calculation of forecasted chemicals. For example

the Richmond Road Station (W/P-3-3.5) used 150 LBS/MG of alum in the calculation of forecasted chemicals but the average ranged between 203.77 and 313.04 LBS/MG (W/P-3-3.10). Provide an explanation for the differences.

b. Explain why different averages were used in the calculation of forecasted chemical expense.

128. Refer to page 25 of Mr. Grubb's direct testimony:

a. Cite specific instances in the calculation of forecasted chemical expense where operational judgement was used to adjust the average.

b. Provide the comparisons of the annual budgeted amounts and actual results for chemical expense for the period of 1987 through 1992. Include in the comparison explanations for the variances between actual and budgeted amounts.

129. Provide an analysis of the chemical prices showing that the general inflation rate is an appropriate indicator of the future chemical prices.

130. Refer to page 26 of Mr. Grubb's direct testimony:

a. Kentucky-American has estimated that it will cost \$100,000 to clean its lagoon. Provide the basis for this estimate.

b. Kentucky-American is projecting that all future sludge cleaning will be done at intervals of one year. Provide the reason for cleaning the lagoons on an annual basis.

131. The actual cost to file Kentucky-American's last rate

case² was \$183,818, when amortized over a 2 year period, this would result in an annual amortization of \$91,909. Given this explain why the 9-months of amortization remaining in the forecasted period would be \$68,932 and not the requested \$84,443.

132. a. Given that customer accounting expense has annually increased by 3.85 percent since 1990, page 29 of Mr. Grubb's direct testimony, explain why Kentucky-American has projected that it will now decrease in the forecasted period?

b. Provide an analysis similar to W/P-3-9.1 for customer accounting expense for the period of 1985 through 1990.

133. On page 28 of his direct testimony, Mr. Grubb states that rent expense is based on the actual current signed agreement or agreements. Provide copies of the agreements referenced by Mr. Grubb.

134. a. Given that general office expense has annually increased, as shown by W/P-3-11.1, explain why Kentucky-American has projected that it will decrease in the forecasted period?

b. Provide an analysis similar to W/P-3-11.1 for general office expense for the period of 1985 through 1990.

135. Refer to W/P-3-12.1 through W/P-3-12.3, Miscellaneous expenses:

a. Explain why the base period miscellaneous expense increased by approximately 8.5 percent over the 1991 level?

² Case No. 91-361, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order dated May 7, 1992.

b. Explain why the forecasted period has been reduced below the 1991 level?

136. On page 3 of Mr. Grubb's direct testimony he made the following statement, "The base period data reflects six months of actual data and six months of forecasted data":

a. Based on this statement can it be assumed that May through October 1992 of the base period is actual expenses and the remaining 6-months, November 1992 through April 1993 are forecasted?

b. If revenues for the base period are based on actual revenues to June 1992, does a mismatch between revenues and expenses occur in the base period?

137. a. Is the 1992 property taxes used in the calculation on W/P-5-1.1 based on estimates?

b. When available provide the actual property taxes paid in 1992 to Scott County, Georgetown, Bourbon County, and Sadieville.

138. Workpaper W/P-6-1 Statutory Adjustments has a listing of various amortizations and includes additional AFUDC. Provide the calculations of the amortizations and the additional AFUDC.

139. Refer to workpaper W/P-6-3, the calculation of deferred federal and state income taxes due to accelerated depreciation:

a. At the bottom of the schedule there is test year deferred taxes of \$165,526 and \$999,565. Schedule E-1.3 and E-1.4 shows that deferred federal and state taxes - accelerated depreciation for the forecasted period are \$1,084,986 and \$172,455,

respectively. If the deferred taxes are for the same period reconcile the numbers and if it is not the same year, provide an explanation of what is contained on W/P-6-3.

b. Explain the two calculations in long-hand at the bottom of the workpaper and show where the numbers came from.

140. Has Kentucky-American's utility plant funded by CIAC been eliminated from the calculation of accelerated federal and state tax depreciation?

141. Refer to workpaper W/P-1-13.4:

a. Why is work order M819 included twice on the schedule?

b. Why do work orders M819, M901, M915, M916, M917, M, and M903 show unamortized balances in September 1992 but amortization credits are not reported until July 1993?

142. Refer to page 10 of Mr. Eden's direct testimony:

a. List the 32 management audit recommendations that have been completed and explain what was done to complete the recommendations.

b. List the 65 recommendations Kentucky-American has yet to resolve. Include in the list what Kentucky-American is currently doing on each recommendation and the estimated date it will be resolved.

c. List the 4 recommendations Kentucky-American placed into the agree-to-disagree status. Explain why each recommendation was placed in that status.

143. Did the Service Company consider allocating all of its costs based on the ratio of direct billed costs? If not, why not? If yes, why was it rejected?

144. In Case No. 90-321 Kentucky-American presented the same argument for its 1989 Agreement allocation method that has been presented in this proceeding. In Case No. 90-321 the Commission found this argument to be unpersuasive. Have there been any changes since the Order in that proceeding that would cause the Commission to reconsider its position?

145. In its comprehensive management and operations audit of Kentucky-American for the Kentucky Public Service Commission dated June, 1991, Schumaker and Company recommends in X-R8 that Kentucky-American review its benefits programs and its related costs compared to that offered by other utilities, the local market, and the national market. With regard to this recommendation please respond to the following questions:

a. Has Kentucky-American initiated a study of its employee benefits?

b. What is the status of that study?

c. Please provide any information readily available on the benefits study.

d. Can any conclusions be drawn from this study at the present time?

e. What impact would the implementation of any changes in Kentucky-American's benefit packages, as a result of this study,

have on the calculations of FAS 106 and FAS 87 related expenses in Case 92-452 and future rate cases?

146. Please respond to the following questions in reference to your exhibits and testimony related to the recovery of pension costs.

a. Please provide a copy of all pensions plans available to personnel employed by American Waterworks whose pension costs would be allocated to Kentucky-American as well as those plans available to Kentucky-American employees.

b. Who is the funding agency of the pension plans and what method of funding does Kentucky-American employ?

c. Do all American Waterworks subsidiaries employ the same pension plans?

d. Please provide a listing of subsidiaries and type of pension plan offered in categories of 1) defined benefit plan, or 2) defined contribution plan.

e. If determinable, what amount of accrued pension cost (as calculated under FAS 87) will be deferred in the following years?

(1) 1994

(2) Future test year, Case 92-452

f. Please provide detailed supporting calculations of accrued pension costs for the following years.

(1) 1990 \$ 74,481

(2) 1991 121,792

(3) 1992 228,100

- (4) 1993 267,800
- (5) 1994 ?
- (6) Future test year, Case 92-452

g. When and how does Kentucky-American plan to amortize the regulatory asset or deferred expense, if approval is granted by this Commission?

h. What would be the tax consequences of expensing current pension costs in the appropriate period instead of deferring them to a future date when the contribution is tax deductible for calculating taxes payable?

i. What is the basis for the belief that the Commission will allow Kentucky-American to defer FAS 87 pension costs?

j. If the Commission allowed deferral of FAS 87 pension costs, what savings to the consumer will result?

k. If the Commission recognizes the difference between the pension costs accrued under FAS 87 and the actual cash contribution made to the plan as a regulatory asset, at what future date does Kentucky-American anticipate that it would again be required to fund this plan? How was the determination made? Supply all supporting assumptions and calculations. Would the funding be at the maximum tax deductible amount? If not, at what level?

l. Please provide name and qualifications of actuarial firm performing calculations for pension costs under FAS 87.

m. Please provide a list of all actuarial assumptions made in the actuarial study and the implications of each as to the final result.

147. Please respond to the following questions in reference to your exhibits and testimony related to the recovery of OPEB costs.

a. Please provide name and qualifications of actuarial firm performing calculations for OPEB costs under FAS 106.

b. Would the OPEB costs determined by Kentucky-American under FAS 106 be fully tax deductible in the year incurred? Would the FAS 106 costs be fully tax deductible if the Commission required Kentucky-American to continue under the "pay as you go" method for rate-making purposes?

c. Quantify the effects that immediate recognition of the "transition obligation" to FAS 106 would have on Kentucky-American's operations? What effect would this have on the utility's actual tax liability? (Quantify the effect of any carry-backs or carry-forwards for tax purposes, if any).

d. How do Kentucky-American's medical cost increases compare to those incurred by similar sized utilities and businesses that operate in the same region as Kentucky-American?

e. How was the medical trend inflation rate decrease from 19% to 6% over the twenty year period determined? Provide all assumptions and underlying calculations used to make this determination?

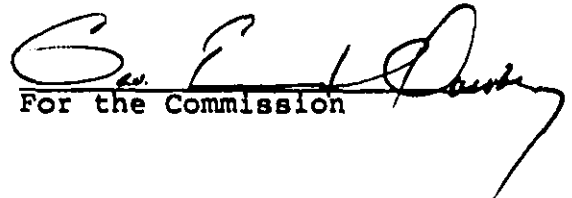
f. Please explain where pay as you go OPEB costs are included in work-paper 3-6.2. Reconcile the amount of pay as you

go OPEB costs shown on work-paper 3-6.2 with the forecasted pay as you go OPEB costs as included on exhibit RLF-C Page 2 of 2.

g. Please explain why the FAS 106 costs and the pay as you go costs for post-retirement medical benefits for the years 1994-1997 as shown on work-paper 3-6.4 differ from those costs shown on work-paper 3-6.6.

Done at Frankfort, Kentucky, this 4th day of March, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director